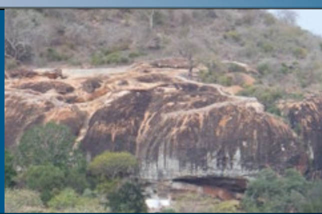
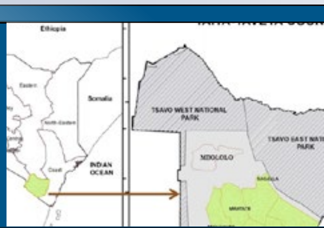
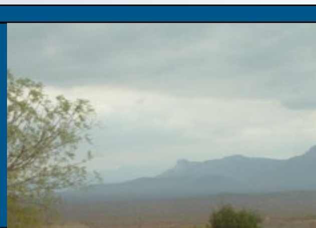
THE KASIGAU CORRIDOR REDD+ PROJECT IN KENYA:

A CRASH DIVE FOR ALTHELIA CLIMATE FUND





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Produced by Re:Common - www.recommon.org
and Counter Balance - www.counter-balance.org

In cooperation with Jamaa Resource Initiative

Text closed on December 2016

This publication has been produced with the financial assistance of the European Union and of the Polden Puckham Charitable Foundation. The content of this publication is the sole responsibility of Counter Balance and Re:Common and can under no circumstances be regarded as reflecting the position of the European Union.

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SUMMARY

Village affected by the Kasigau Corridor REDD+ project in the Taita Hills, Kenya, Photo © Jutta Kill

By investing *up to* €25m into the Althelia Climate Fund, the European Investment Bank (EIB) aims to show how blending EU public and private sector funding helps finance projects that (claim to) reduce emissions in the land use sector, and thereby contribute to fighting climate change. The EIB describes the Fund as a "path breaking proposal to enhance the environment and reduce carbon emissions through support for sustainable land use and conservation of primary forest." Althelia initially aimed to raise €150m; its Climate Fund eventually secured investments totalling €101m, including €15m from the EIB. The Fund announced it planned to invest the money in some 20 projects that would generate "forest based carbon and other environmentally certified credits for sale to the voluntary offset market".[1, 2] Yet, four years after the EIB announced its investment, and three years into the Fund's eight-year lifetime, its published project portfolio remains small, with roughly 50% of the €101m committed to projects in the current portfolio.[3] An 'Emissions Reduction Purchase Agreement' with its signature project, the Kasigau Corridor REDD+ project in Kenya, fell through in July 2016, and the financing was converted into a loan.[4] In addition, several reports document how land use restrictions imposed by the Kasigau Corridor REDD+ project hit pastoralists and ethnic *Taita* and *Duruma* communities particularly hard while these groups receive very few if any of the benefits the REDD+ project provides to local communities.

As watchdog organisations Counter Balance and Re:Common are committed to monitoring the operations of the EIB so the institution becomes more sustainable, open and transparent. Our organisations have closely followed this EIB flagship investment into the Althelia Climate Fund from the start. We presented a first analysis of the Fund in the 2014 report „Banking on Forests".[5] The current report highlights the main findings of a July 2016 field mission to the Kasigau Corridor REDD+ project area in Kenya, the first project for which Althelia announced financing in 2012. The findings call into question the compatibility of this EIB investment in REDD+ with the bank's development mandate. Four years into the EIB's five-year investment, the Althelia Climate Fund website mentions funding into five projects, including the Kasigau Corridor REDD+ project, where the initially proposed financing via an 'Emissions Reduction Purchase Agreement' was altered to financing through provision of a loan. In light of these findings, Re:Common and Counter Balance call on the EIB to carry out a comprehensive evaluation and public discussion on the effectiveness and compatibility with its development mandate of the bank's investment into the fund. Further disbursements to Althelia and new financing commitments to REDD+ and similar initiatives should be halted while an evaluation is carried out.

1 EIB Environmental and Social Data Sheet Project 2010-0720. 18 December 2012. http://www.eib.org/infocentre/register/all/51455854.pdf , accessed 14 October 2016.

2 EIB (2016): The climate finance pioneer. 04/2016. http://www.eib.org/attachments/thematic/the_climate_finance_pioneer_en.pdf

3 Althelia Climate Fund 2015 Audited Annual Report, P. 13, shows a „Gross Commitment" of €48,986,623 to five projects and €5,169,727 to „Other investments" that are not further specified in the Audited Annual Report. The „Estimated present value" of the five projects is given as €25,142,353 – roughly 51% of the „Gross Commitment".

4 Pers. com. Althelia Climate Fund in a letter of 25 November 2016 to Counter Balance.

5 Re:Common & Counter Balance (2014): Banking on Forests. http://www.counter-balance.org/banking-on-forests/

1. OVERVIEW OF MAIN FINDINGS

PROJECT PORTFOLIO LIKELY TO BE SIGNIFICANTLY SMALLER THAN ANNOUNCED AT LAUNCH

Althelia and EIB marketing materials state that the €101m secured for the Althelia Climate Fund would be invested in some 20 projects. Those would generate "forest based carbon and other environmentally certified credits for sale to the voluntary offset market".[6,7]

Since 2014, the Althelia Climate Fund has announced investments in five projects in four countries – Kenya, Peru (2), Brazil and Guatemala. For four of the projects, the Fund's annual reports indicate that the investment is made in the form of loans whereas for the REDD+ project in Kenya, the 2015 audited financial report mentions an investment through an 'Emission Reductions Purchase Agreement' (ERPA). Four of the five projects are also covered by a US$133.8m loan guarantee that USAID has extended to the Althelia Climate Fund in 2014. As of 31 December 2015, investors had disbursed €18,36m of the €101m committed.[8] The Fund's 2015 Audited Annual Report states "investments at cost" of €11,483,772, with "unrealised appreciation on investments" of €13,741,768 adding up to the €25,225,540 of "Investments at market value"[9], elsewhere in the report also referred to as "Total Investments".[10] A February 2016 article on the website Institutional Investor cites an investor in the Fund noting that the return for the investment has been "in the double digits."[11] The comment raises questions about how the Althelia Climate Fund has been able to generate such returns given the small published project portfolio, the deflated carbon credit price and the figures shown in its 2015 Audited Annual Report.

It seems unlikely that Althelia will achieve its "[t]arget portfolio [of] 20 to 25 investments within 3 years, or before the end of the EIB investment period in June 2017."[12][13] In September 2016, the EIB stated that "with EUR 105m raised instead of EUR 150m initially targeted, the Fund will target 12-14 projects."[14]

6 EIB (2012), op cit.: 1.

7 EIB (2015): Innovative Climate Finance Products. 04/2015. http://www.eib.org/attachments/thematic/innovative_climate_finance_products_en.pdf

8 According to Althelia Climate Fund 2015 Audited Annual Report, 13 investors committed €101,431,001 of which €83,071,250 remained undrawn on 31 December 2015: P. 14, Note 9.

9 Althelia Climate Fund 2015 Audited Annual Report, P. 7.

10 Althelia Climate Fund 2015 Audited Annual Report, P. 10.

11 K. Gilbert (2016): For Conservation Investors, Returns Trump Impact. http://www.institutionalinvestor.com/article/3529287/asset-management-macro/for-conservation-finance-investors-returns-trump-impact.html#.WDTIdhrhBdg

12 Althelia Ecosphere presentation, Sustainable land use as an asset class. Summary of the Althelia Climate Fund. 8 September 2013. http://www.arena-international.com/Journals/2013/10/18/m/z/o/10_Althelia_Christian-del-Valle.pdf

13 03 August 2015 reply by the EIB to Counter Balance questions about the EIB investment into the Althelia Climate Fund. Q Counter Balance: „What is the status of the EIB support to the Althelia Climate Fund? Has the whole amount of EUR 25m been disbursed by the bank?" A EIB: The Fund completed its last closing in December 2014 with EUR 105m committed by private and public investors. EIB commitment is EUR 15m. This amount is disbursed as and when new or current investments make requests. End of investment period is June 2017."

14 EIB reply to Counter Balance request for

Achieving even that "within 3 years" as indicated by Althelia Ecosphere in 2013 would seem a challenge.

Althelia Climate Fund charges management fees as a proportion of the investment. For 2014 and 2015, the fund has charged its 12 investors €4,40m in management fees.

FINANCING AGREEMENT WITH SIGNATURE KASIGAU CORRIDOR REDD+ PROJECT UNRAVELLED IN MID-2016

The Taita Hills REDD+ Project in Kenya has been marketed by Althelia, the project developer Wildlife Works Carbon, institutional funders like the EIB and media supporting market-based environmentalism as the Fund's signature investment. Wildlife Works Carbon has been operating the Kasigau Corridor REDD+ project in south-eastern Kenya since 2005. The Althelia funding was meant to finance expansion of the existing project into the 'Taita Hills' area, adjacent to the Kasigau Corridor REDD+ project.

In February 2014, Althelia and Wildlife Works Carbon - "the carbon market's leading REDD+ project development and management company"[15] - announced they had signed a US$10m financing deal for the 'Taita Hills Conservation and Sustainable Land Use Project' in south-eastern Kenya. The project remained prominent on the Althelia Climate Fund website in November 2016. But by July 2016, the negotiation of the Emissions Reductions Purchase Agreement with the Wildlife Works Carbon "Taita Hills REDD+ Project" had fallen through, reportedly over the details of the financial arrangements and repayment terms. According to Althelia Climate Fund, the financing has been converted into a loan.[16] Althelia's 2015 annual report puts the estimated present value of the Kasigau Corridor REDD+ project at €4,67m, with a gross commitment from Althelia Climate Fund of €8,75m – roughly equal to the US$10m at February 2014 exchange rates. The net estimated value Althelia assigned to the investment was adjusted (reduced) in both years, by 28% in 2015 and by 42% in 2014. Value adjustments between 43% and 67% are also reported for three of the remaining four projects mentioned on Althelia's website (the forth one was signed only in 2015). In other words, the Audited Annual Report 2015 shows a large gap between the "gross commitment" and the "estimated present value" – not only for the Kasigau Corridor REDD+ project, but for all projects in the Althelia Climate Fund portfolio.

IFC FORESTS BONDS PROVIDE FINANCIAL LIFELINE TO KASIGAU CORRIDOR REDD+ PROJECT

The protracted, and eventually unsuccessful, ERPA negotiations mean that Althelia's innovative financing boils down to providing loans backed by an USAID guarantee to projects that engage in a series of activities, including the generation of carbon credits from supposedly reducing emissions from deforestation to pay back the loan and some extra profit to Althelia Climate Fund investors. The failed ERPA negotiation also left the REDD+ project developer, Wildlife Works Carbon, without the secure buyer of its carbon credits, and a gap to fill. Finding a replacement for the ERPA deal with Althelia that had just fallen through in July 2016 was likely a matter of survival for Kasigau Corridor REDD+ and its 'Taita Hills' expansion given that the project was already experiencing cash flow problems.

The Kasigau Corridor REDD+ project's financial lifeline came from the International Finance Corporation (IFC), the private sector arm of the World Bank, and BHP Billiton, the mining company with a record of severe environmental damage and forced displacement of communities that stretches back decades and continues to this day.[17]

In November 2016, the IFC launched a US$152m "Forests Bond", listed on the London Stock Exchange. The bond has reportedly been sold to major institutional investors who are offered either cash or carbon credits in return for their investment. The carbon credits will be sourced from the Wildlife Works Kasigau Corridor REDD+ Project in Kenya. Investors who prefer the cash option will be repaid through a purchase commitment made by BHP Billiton, co-owner of the

information. September 2016

15 CSRwire (2014): Wildlife Works to launch Taita Hills Conservation and Sustainable Land Use Project in Kenya with $10M investment from Althelia Climate Fund. 19 February 2014. https://onepercentfortheplanet.org/2014/02/wildlife-works-to-launch-taita-hills-conservation-and-sustainable-land-use-project-in-kenya-with-10m-investment-from-althelia-climate-fund/

16 Pers. com. Althelia Climate Fund in a letter of 25 November 2016 to Counter Balance.

17 See, among others, an extensive list of reports on the impacts of the mining company's operations available on the BHP Billiton Watch website: https://bhpbillitonwatch.net/

Samarco mine in Brazil, where the bursting of a tailings dam in 2015 caused the country's worst environmental disaster.[18]

The conservation NGO Conservation International (CI) supports the IFC Forests Bonds deal. CI has long been aggressively promoting REDD+ and invested significant resources in promoting the concept. The group is also a founding member of the Climate, Community & Biodiversity Alliance (CCBA), which developed the widely used CCB certification standard. CI sits on the Althelia Climate Fund GP Expert Board, and would presumably have been aware of the difficulties around the negotiations between Althelia and Wildlife Works Carbon. CI and Wildlife Works Carbon are also project partners in the Chyulu Hills REDD+ project, located to the north of the Kasigau Corridor REDD+ project area. A financing gap that would have jeopardized the Kasigau Corridor REDD+ operations would thus also likely have affected CI's own investment in the Chyulu Hills REDD+ project.

PASTORALISTS AND ETHNIC MINORITIES HIT HARDEST BY KASIGAU CORRIDOR REDD+ PROJECT LAND USE RESTRICTIONS

The Kasigau Corridor REDD+ project received several awards and certificates, including the Gold certificate of the Climate Community Biodiversity (CCB) Standard, the certification scheme for REDD+ projects, and is featured on the USAID 'Stand for Trees' initiative. Buyers might thus give little thought to the issue of reputational risk related to carbon credit purchases from the project.

But it would be an exception rather than the rule to find a REDD+ project that has not caused or exacerbated local land use and land access conflicts; or that is really addressing the underlying causes of forest loss; or that has devised a mechanism where those who are most affected by land use restrictions imposed by the REDD+ project are also the main beneficiaries of the project – or are even fairly compensated for the impacts a REDD+ project has on their lives.

The July 2016 field investigation by Re:Common and Counter Balance confirmed that the Wildlife Works Carbon Kasigau Corridor REDD+ project is no exception. Pastoralists and local residents without land title documents are hardest hit by restrictions the REDD+ project puts on land access, grazing and collection even of dry branches for firewood. Pastoralists and Taita and Duruma communities without land title documents on the one side and ranch shareholders on the other are both laying claim to land that has become part of the REDD+ project. The conflicts date back to historic injustices over land allocation as recent as the 1970s. The REDD+ project upholds or even exacerbates these injustices. Those most disadvantaged in 'the community' also have next to no say in the selection and execution of so-called community projects. The revenue from REDD+ credit sales that is allocated to communities, funds these community projects. Worse, the REDD+ project might have dramatic consequences during periods of severe drought because land access restrictions also close off access to water holes.

Despite deflated carbon credit prices and conflicts linked to the land use restrictions the project imposes, Wildlife Works Carbon has big plans. The 'Taita Hills' expansion of the Kasigau Corridor REDD+ project as well as the company's involvement in the Chyulu Hills REDD+ project are part of the first jurisdictional nested REDD+ programme proposal in Kenya. Such jurisdictional programmes are seen as the future direction of REDD+. Proponents claim that this approach where land use is regulated through the greenhouse gas emissions lens on a larger "landscape" scale and beyond individual projects, will solve many of the current problems with REDD+, such as deforestation just being pushed outside a project boundary. But there is already ample indication that with jurisdiction-wide REDD+ programmes, the problems will just become bigger rather than being solved. In the Wildlife Works proposal for jurisdictional REDD+ in Kenya, individual REDD+ projects will also just continue, nested inside the bigger programme, but still with the same funding model of selling carbon credits. That means jurisdictional REDD+ will still allow more emissions elsewhere and crucially, justify still more, not less oil and coal being burned as fossil fuel elsewhere on the planet, releasing ever more fossil carbon into the atmosphere where it will aggravate the climate crisis.

18 Dom Philips (2016): Samarco dam collapse: One year on from Brazil's worst environmental disaster. https://www.theguardian.com/sustainable-business/2016/oct/15/samarco-dam-collapse-brazil-worst-environmental-disaster-bhp-billiton-vale-mining

2. THE EIB INVESTMENT INTO ALTHELIA CLIMATE FUND

European financial institutions are playing an important role in promoting the development of forest carbon finance through REDD+ initiatives. Public financial institutions are called on to invest in REDD+ as a way of buffering private investment risk because investment in REDD+ remains risky business: the list of REDD+ ventures that have managed to break even, let alone turn a reliable profit seems remarkably short. Unsurprisingly in this situation, private investors are looking for public funds to shoulder a large part of their private capital investment risk.

The European Investment Bank (EIB) is the EU's 'house bank'. EU governments that have been promoting private capital financing of REDD+ and similar market-based compensation mechanisms are now keen to demonstrate 'proof of concept' and expect public financial institutions like the EIB to play a role in enabling REDD+ and similar compensation pilot initiatives in the land use sector worldwide. As with previous EIB investments in carbon markets, the likely associated negative development impacts are at risk of being overlooked. This risk is even bigger in the case of REDD+, because unlike mining, logging, hydropower or infrastructure investments, development banks have tended to consider REDD+ per se to be benign and deliver a positive development impact. Ample evidence testifying that this assumption is wrong has not stopped public financial institutions to commit funds to REDD+. For the EIB, the investment in the Althelia Climate Fund is the first commitment to "a fund dedicated to forest carbon."[19]

19 EIB (2012), op. cit.: 1

By investing *up to* €25m into the Althelia Climate Fund, the EIB thus aims to show how blending EU public and private sector funding helps finance projects in the land use sector that (claim to) contribute to fighting climate change by reducing emissions from land use activities. "*The Althelia Climate Fund (the "Fund") is a path breaking proposal to enhance the environment and reduce carbon emissions through support for sustainable land use and conservation of primary forest. European based, the Fund is global, focusing on Africa and Latin America, and secondarily in Asia. With a target of EUR 150m of commitments from private and public investors the Fund will invest in some 20 projects to source forest based carbon and other environmentally certified credits for sale to the voluntary offset market. An amount of voluntary forest carbon credits corresponding to EIB's investment will be sold by the Fund to (public or private or philanthropic) entities that will permanently retire them*," the EIB writes about its investment in the Althelia Climate Fund. [20, 21]

The EIB's Environmental and Social Data Sheet describes the Fund as a "Luxembourg SIF dedicated to the purchase of carbon offsets and environmentally certified co-products generated by such projects", noting that "forest carbon assets will represent a minimum of 60% of the fund."[22]

Other public and private investors that announced investments at the same time as the EIB are FinnFund (€5m), the Dutch development bank FMO (€15m) and the Church

20 http://www.eib.org/projects/pipelines/pipeline/20100720, accessed 14 October 2016.

21 EIB (2012), op. cit.: 1

22 Ibid.: 1

Taita Hills, Kenya, Photo © Adriana Paradiso/Counter Balance

of Sweden (€10m). Althelia Ecosphere states that the sale of "Conservation Notes" it jointly launched with Credit Suisse raised €14m from "c. 50 HNWI investors" (high-net-worth-individual investors) and that "the Notes will support conservation activities and economic development of local communities in up to 10-15 countries through Althelia's portfolio, including Brazil, Peru and Indonesia." [23], [24] The investment blog ImpactAlpha, sponsored by the Packard Foundation and Credit Suisse, also mentions the philanthropic US-based Packard Foundation, a supporter of market-based environmentalism, as contributor to the Althelia Climate Fund: "The most recent validation of Althelia's model comes in the form of a $5 million investment approved by the David and Lucile Packard Foundation."[25] However, Althelia Climate Fund wrote in a letter dated 25 November 2016 to Counter Balance that "[t]he David and Lucile Packard Foundation is not an investor into the Fund".

Althelia eventually raised ca. €101m by June 2014, including €15m the EIB committed in 2013. Since then, the Althelia Climate Fund invested in five projects in four countries – Kenya, Peru (2), Brazil and Guatemala. For four of the projects, Althelia Climate Fund annual reports indicate that the investment is made in the form of loans whereas for the REDD+ project in Kenya, the 2015 financial report still shows investment

23 Christian del Vale (2015): Althelia Ecosphere. Making the investment case for natural capital. Presentation at the World Forum on Natural Capital, 23-24 November 2015. Slide 7.

24 Althelia Ecosphere Press Release 7 April 2015. Althelia Ecosphere wins prestigious Environmental Finance award. https://althelia.com/wp-content/uploads/2015/04/Althelia-Press-Release-Environmental-Finance-Awards-7th-April-2015.pdf

25 David Bank (2014): Beyond Carbon: Althelia Climate Fund Attracts Conservation Investors. ImpactAlpha 24. 10. 2014. http://impactalpha.com/beyond-carbon-althelia-climate-fund-attracts-conservation-investors/ , accessed 14 October 2016.

through an 'Emission Reductions Purchase Agreement' (ERPA). However, the ERPA negotiations proved unsuccessful and according to Althelia, the financing has been converted to a loan.[26] Four of the five projects are also covered by a US$133.8m USAID loan guarantee that covers "50% of any losses at both investment and portfolio level for investors in the Althelia fund."[27] Althelia received the USAID loan guarantee in May 2014. In a video message to the Carbon Expo in Cologne (Germany), former US Secretary of State John Kerry mentioned the deal, describing it as a "new risk-sharing loan guarantee that will enable Althelia to finance ***hundreds of forest-based businesses in developing countries*** that rely on sustainably managed land use for their livelihoods."[28] [Emphasis added] With the loan guarantee, USAID has agreed to guarantee a minimum share price to the Althelia Climate Fund investors "because the fund is interested not only in carbon credits, but also in broader sustainable development," the EIB's Ranaivoson explained.

As of 31 December 2015, institutional investors had disbursed €18,36m of the €101,43m committed.[29] The same report states a „Gross Commitment" of €48,986,623 to five projects and €5,169,727 to „other investments" that are not further specified in the Audited Annual Report, but for which an „Estimated present value" of €83,187 is given – 1.6% of the „Gross Commitment". The „Estimated present value" of the five projects is given as €25,142,353 – roughly 51% of the „Gross Commitment". The report further puts the "investments at cost" at €11,483,772, with "unrealised appreciation on investments" of €13,741,768 adding up to the €25,225,540 of "Investments at market value"[30], elsewhere in the report also referred to as "Total Investments".[31]

It seems unlikely that Althelia will achieve the "[t]arget portfolio [of] 20 to 25 investments within 3 years, or before the end of the EIB investment period in June 2017."[32] [33] In September 2016, the EIB stated that "with EUR 105m raised instead of EUR 150m initially targeted, the Fund will target 12-14 projects"[34], but even achieving that target through financing of viable REDD+ projects by mid-2017 would seem a challenge. Althelia Climate Fund charges management fees as a proportion of the investment. For 2014 and 2015, the fund has charged its 12 investors €4,40m in management fees. A February 2016 article on the website Institutional Investor cites an investor in the Fund noting that the return for the investment has been "in the double digits."[35] The comment raises questions about how the Althelia Climate Fund has been able to generate such returns given the small project portfolio and the low carbon credit price.

The Althelia Climate Fund's Audited Annual Report for 2015 also mentions a gross commitment of €5,17m to "other investments", without giving any further detail as to the nature of these "other investments".

In 2014 and 2015, the EIB also purchased carbon credits from the Kasigau Corridor REDD+ project to "compensate its residual emissions resulting from its own operations" (see chapter below for details).

26 Pers. com. Althelia Climate Fund in a letter of 25 November 2016 to Counter Balance.

27 EIB Info 155 (2014): Aligning Economy with Ecology for Sweet Success. P. 15. http://www.eib.org/attachments/general/bei_info/bei_info155_en.pdf

28 USAID, U.S. Government, Althelia Climate Fund Mobilize $133.8 Million for Forest Conservation and Alternative Livelihoods, Press Release, 28 May 2014. See: http://www.usaid.gov/news-information/press-releases/may-28-2014-us-government-althelia-climate-fund-mobilize-1338-million-forest-conservation

29 According to Althelia Climate Fund 2015 Audited Annual Report, 13 investors committed €101,431,001 of which €83,071,250 remained undrawn on 31 December 2015: P. 14, Note 9.

30 Althelia Climate Fund 2015 Audited Annual Report, P. 7.

31 Althelia Climate Fund 2015 Audited Annual Report, P. 10.

32 Althelia Ecosphere presentation ‚Sustainable land use as an asset class. Summary of the Althelia Climate Fund. 8 September 2013. http://www.arena-international.com/Journals/2013/10/18/m/z/o/10_Althelia_Christian-del-Valle.pdf

33 03 August 2015 reply by the EIB to Counter Balance questions about the EIB investment into the Althelia Climate Fund. Q Counter Balance: „What is the status of the EIB support to the Althelia Climate Fund? Has the whole amount of EUR 25m been disbursed by the bank?" A EIB: The Fund completed its last closing in December 2014 with EUR 105m committed by private and public investors. EIB commitment is EUR 15m. This amount is disbursed as and when new or current investments make requests. End of investment period is June 2017."

34 EIB reply to Counter Balance email request for information. September 2016

35 K. Gilbert (2016): For Conservation Investors, Returns Trump Impact. http://www.institutionalinvestor.com/article/3529287/asset-management-macro/for-conservation-finance-investors-returns-trump-impact.html#.WDTIdhrhBdg

WHO'S (BEHIND) ALTHELIA?[36]

The Althelia Climate Fund was incorporated on 12 December 2011 in Luxembourg as a SICAV-SIF. SICAV is the French abbreviation for *société d investissement à capital variable* - an investment company with variable capital. SIF stands for Specialised Investment Fund. The Althelia Climate Fund will run for eight years, with the option to extend the fund by two years.

The founding shareholders of the Althelia Climate Fund SICAV are Althelia Climate Fund GP Sàrl (1 General Partner share / 0.0032%), Sylvain Goupille (15,500 shares / 49.99%) and Christian Del Valle (15,500 shares / 49.99%).[37] In 2013 and 2014 additional shares were issued to the investors into the fund.[38] Goupille and del Valle previously worked at BNP Paribas Corporate and Investment Banking. Goupille was head of Carbon Finance and del Valle was Director of Environmental Markets and Forestry. In this function del Valle worked on a US$50 million financial package for Wildlife Works Carbon LLC that was instrumental to the creation of the Kasigau Corridor REDD+ project in Kenya.

Althelia Climate Fund GP Sàrl (1 GP share in the SICAV) was also registered on 12 December 2011 in Luxembourg. The sole founding shareholders are: Sylvain Goupille (6,875 shares / 55%) and Christian Del Valle (5,625 shares / 45%).[39] Althelia Climate Fund GP also fully owns Ecosphere Capital Limited, registered in London. From the date of registration until April 2013, when Goupville resigned as director, Goupille and Del Valle were the sole directors of Ecosphere Capital Ltd.. Ecosphere Capital Ltd is the "investment advisor" of Althelia Climate Fund SICAV. Is Del Valle paid to provide "investment advise" to his own investment fund – Althelia Climate Fund SICAV – through the UK subsidiary of the Althelia Climate Fund GP? In addition to seemingly being paid to provide "investment advise" to himself, Del Valle – and Goupille – through Althelia Climate Fund GP as fund manager also charge investors into the Althelia Climate Fund SICAV a hefty "management fee".

Goupille and Del Valle are also the founding members of Ecosphere Capital Partners LLP, based in London. Goupille's membership was terminated in April 2013.[40] The entity's role in relation to Althelia is not explained in the information available. Another company named in the Althelia Climate Fund GP annual report is Piccolo 5 S.A., also registered in Luxembourg and owned by Sylvain Goupille. Its role in management of the climate fund or its relation to the fund is not explained in the annual report.

BNP Paribas Securities Services is named as administrative agent of the Althelia Climate Fund SICAV, and for this service the bank is "entitled to receive, out of the assets of the SICAV, fees and commissions". These vary from 0.07% to 0.12% of the Net Asset Value of the investment fund. BNP Paribas receives an additional 0.0015% of the Net Asset Value for acting as Custodian bank of the fund.[41]

In 2014, the report *Banking on Forests* raised a series of questions regarding the financial set-up of Althelia:

- *Who is the beneficiary of advisory fees paid by Althelia Climate Fund GP? Ecosphere Capital Ltd?*
- *What is the role of Ecosphere Capital Partners LLP, registered in London?*
- *On which criteria was BNP Paribas chosen as custodian and administrative agent of the SICAV?*
- *What is the total amount of fees paid to Ecosphere Capital Limited as investment advisor?*
- *And, most importantly, does Christian Del Valle receive payments out of the public funding paid into Althelia Climate Fund SICAV both as shareholder of the fund's "Investment advisor" (Ecosphere Capital Limited) and as "General Partner" of the SICAV fund manager, Althelia Climate Fund GP Sarl?*[42]

These questions remain valid. The added value ***for development*** from the EIB using financial intermediaries operating such convoluted company registration arrangements is not apparent. Considering that the fees paid out to the fund manager – a company controlled by Del Valle and Goupille - have only increased while proof of concept or a contribution of the investment to either lasting beneficial rural development or climate protection are not tangible, the EIB has yet to present a convincing argument for its "flagship investment" into the Althelia Climate Fund SICAF-SIF.

36 The information presented in this box is a summary of the more detailed analysis of Althelia in the Re:Common and Counter Balance 2014 report Banking on Forests. The European Investment Bank's belief in financial alchemy to fix the climate crisis: The case of the Althelia Climate Fund. http://www.counter-balance.org/banking-on-forests/

37 Ibid.: Footnote 9

38 Ibid.: Footnote 10

39 Ibid.:Footnote 11

40 Registration of the entity with Companies House, UK: Incorporation of a limited liability partnership. 13 March 2012. https://beta.companieshouse.gov.uk/company/OC373307/filing-history

41 Counter Balance (2014), op. cit.: 28, Footnote 12

42 Ibid.: P. 7

3. WILDLIFE WORKS CARBON REDD+ PROJECTS IN KENYA

The Taita Hills REDD+ project in Kenya was the first project to announce a financing deal with the Althelia Climate Fund. In February 2014, Althelia and the US-based private company Wildlife Works Carbon LLC announced that they had signed a US$10m financing agreement that would help the 200,000 hectare 'Taita Hills Conservation and Sustainable Land Use Project' in south-eastern Kenya off the ground.[43] The objective of the project was to double the area already designated to REDD+ under the Wildlife Works Carbon Kasigau Corridor REDD+ project – a corridor of land between two National Parks. Even though the EIB emphasised that Althelia's investments will be made in projects in "primary forests", the Kasigau Corridor REDD+ project area is primarily secondary forest comprised of open forestland, shrubland and grassland savannah.

Wildlife Works Carbon describes itself as "the world's leading REDD+ project development and management company with an effective approach to applying innovative market based solutions to the conservation of biodiversity."[44] In 2013, Wildlife Works Carbon became the full owner of a REDD+ project in the Democratic Republic of Congo, the Mai N'dombe REDD+ project. In Kenya, Wildlife Works' founder, Mike Korchinsky, has been involved in the Kasigau Corridor and Taita Hills REDD+ project area since 1998, when the company set up an "EcoFactory" on the privately held Rukinga Ranch.

43 Althelia Climate Fund, Wildlife Works announce $10 million investment to launch the Taita Hills Conservation and Sustainable Land Use Project in Kenya. 17 February 2014. https://althelia.com/investment/taita-hills-conservation-and-sustainable-land-use-project/

44 http://www.wildlifeworks.com/

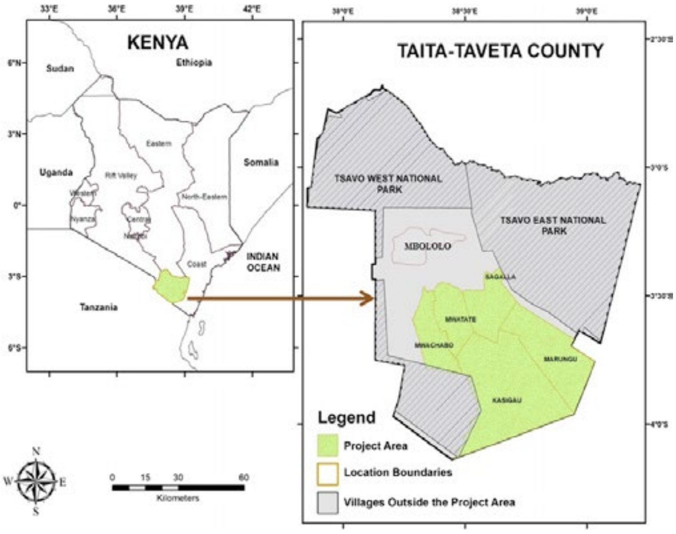
THE KASIGAU CORRIDOR I AND II REDD+ PROJECTS

In 2000, Wildlife Works Carbon acquired the majority of the shares in Rukinga Ranching Company Ltd. from the former owner of the ranch in order to protect the investment made in the "EcoFactory". A cattle slaughterhouse operator had been reported to be interested in purchasing the ranch shares when the former owner announced his intention to sell.[45] By 2005, Wildlife Works Carbon had set up the Kasigau Corridor I REDD+ project on the Rukinga Ranch land. The Kasigau Corridor Phase II REDD+ project is made up of 13 cattle ranches with a combined area of 167,000 ha, and the land within these two REDD+ projects forms a corridor covering just under 2,000km^2 of land (the Kasigau Wildlife Corridor) between the Tsavo East and Tsavo West National Parks.

Wildlife Works Carbon signed conservation easements with (and acquired the carbon rights from) the owners of those 13 ranches. The ranches are mostly 'group ranches', with 50 - 2500 members per ranch. Group ranches were introduced by the Kenyan government with the aim of regulating traditional pastoralist grazing systems. In group ranches, a group of people or families jointly hold title to land, agree on herd sizes and own cattle, camels or goats individually but herd them together. Conflicts and

45 IGES: The Kasigau Corridor REDD Project Phase I Rukinga Sanctuary. IGES Briefing. http://redd-database.iges.or.jp/redd/download/project;jsessionid=C61B4491B5123B48E4C62744CB14D89D?id=91 and The Kasigau Corridor REDD Project Phase II – The Community Ranches http://redd-database.iges.or.jp/redd/download/project?id=103 . Accessed 24 October 2016.

injustices around allocation and acquisitions of shares in many of these group ranches dating back to the time when the concept of group ranches was introduced in the mid-1960s have been reported widely, and land use and access rights for many parts of the group ranches remain contested.[46] Most people holding shares in the ranching companies or groups involved in the Kasigau Corridor REDD+ project do not live in the local community; only about 5% of the shares are believed to be held by local residents.[47]



Kasigau project location within Kenya. J.O. Atela et al./Journal of Environmental Management 157 (2015) 238-249

Except Rukinga Ranch which is designated as a Wildlife Sanctuary, all group ranches in the Kasigau Corridor II REDD+ Project scheme and surrounding ranches have livestock, mainly cattle, goats and camels, at different stocking intensities.[48] The large majority of ranch shareholders are absentee owners. Restrictions on land use at the ranch sites affect them much less than local residents who depend on access to this land for their subsistence livelihoods or pastoralists who use the area for grazing and access to water holes in periods of drought. Most of the local residents dependent on access to the land do not hold ranch shares. Use and access rights to the land that has been designated REDD+ project area by ranch shareholders have been contested between these two groups for a long time. In the years prior to the arrival of the REDD+ project, conflicts had eased due to many absentee ranch shareholders having derived little revenue from their shares in recent years. Many of the public companies managing these ranches ran up debts rather than generating profits, and ranch shareholder interest in their ranches waned as most had other businesses or income elsewhere.[49]

In exchange for agreeing to manage the ranches in accordance with the REDD+ project objectives, the ranch shareholders receive one third of the revenues generated through the sale of carbon credits. In the original ‘benefit-sharing’ descriptions, a further third of the revenues was earmarked for social and community development projects that are meant to benefit those residents who do not hold any ranch shares but who are affected by the land use restrictions the REDD+ project imposes. However, a paper published in 2016 reports that after “realising that the one-third ratio would not work [for Wildlife Works Carbon], the current arrangement is thus: ranch shareholders as landowners get their contractual 1/3 first, because without their legal approval the project would be impossible. REDD+ project costs are covered next, and then the broader community and Wildlife Works split 50%“ of the profit that remains after these costs have been deducted.[50]

The Kasigau Corridor REDD+ project has been certified by the Verified Carbon Standard (VCS) and the Climate, Community and Biodiversity (CCB) Standard, which awarded a Gold level certificate. The VCS project documents state expected greenhouse gas emission reductions of 6 million t CO_2e for the Rukinga Ranch and 39-49 million t CO_2e for the group ranches over the course of the 30-year lifetime of the project. If these reductions are realized, the Kasigau Corridor REDD+ project would generate between 45 and 55 million carbon credits over a 30 year project period (2006-2036), with the group ranch component (Kasigau Corridor Phase II) accounting for the large majority of the calculated emission reductions.

46 See among others, E. Mwangi (2005): The Transformation of Property Rights in Kenya’s Maasailand: Triggers and Motivations. CAPRi WORKING PAPER NO. 35

47 J. Atela et al. (2015): Implementing REDD+ at the local level: Assessing the key enablers for credible mitigation and sustainable livelihood outcomes. Journal of Environmental Management 157: 238-249. P. 242.

48 Ibid.: P. 246

49 For more detail, see section, Other controversial aspects‘, particularly, Historical inequality of land allocation and its lasting legacy: the cause for REDD+ project conflicts.‘

50 M. Githiru (2016): Correcting inequity: How the implementation of the Kasigau Corridor REDD+ Project in fact redresses past injustices. Response to Chomba et al.. Land Use Policy 57: 619–624

The 2014 VCS Monitoring and Implementation report claims that the smaller portion of the Kasigau Corridor REDD+ project, the ca. 13,000 hectare Rukinga Ranch "has provided significant educational community benefits, including school bursary's to over 14,000 primary, secondary and University students, and funding over $125,000 USD in school building renovations and improvements."[51] This claim, and in particular the number of bursaries provided, seems outlandishly exaggerated considering the low population density in the REDD+ project area.[52]

THE TAITA HILLS REDD+ PROJECT

The 'Taita Hills' REDD+ project, for which Wildlife Works had been negotiating an Emission Reduction Purchase Agreement with the Althelia Climate Fund until the financing arrangement was converted into a loan in July 2016, would place another 2,000km^2 of land adjacent to the Kasigau Corridor I and II REDD+ projects under land management for the generation of carbon credits. A ranch shareholder of the Mbulia group ranch, located in the 'Taita Hills' expansion area, explained in a meeting during the July 2016 field investigation that Wildlife Works had carried out a feasibility study in 2014 and initially rejected inclusion of the ranch area into the project due to charcoal production and poaching activities on the land. He further related how the ranch owners, reportedly with support from rangers formerly employed by Kenya Wildlife Service and now providing patrolling services for the REDD+ area, expelled charcoal producers from the area in question in order to increase their chances for inclusion in the REDD+ project at a later stage.[53]

The Kasigau Corridor I and II REDD+ projects, the proposed expansion under the 'Taita Hills' REDD+ project as well as the company's involvement in the 420,000 hectare Chyulu Hills REDD+ project further to the north are part of a proposal for the first so-called 'jurisdictional nested REDD+' programme in Kenya. The Chyulu Hills REDD+ project was initiated by Conservation International, Africa Wildlife Foundation and the Massai Wilderness Conservation Trust; Wildlife Works is listed as one of eight constituent partners in the project documents submitted for the Chyulu Hills REDD+ project certification.

Such jurisdictional programmes are seen as the future direction of REDD+. Proponents of REDD+ claim that if land on a larger "landscape" scale rather than just by individual projects is managed with the purpose of producing greenhouse gas emission reductions, many of the current problems with REDD+, such as deforestation just being pushed outside a project boundary, would be solved. But problems are manifold and there already is ample indication that with jurisdiction-wide REDD+ programmes, the problems will also just become bigger rather than being solved. In addition, in the Wildlife Works proposal for jurisdictional REDD+ in Kenya, individual REDD+ projects will also just continue, nested inside the bigger programme but still with the same funding model of selling carbon credits. That means jurisdictional REDD+ will still allow more emissions elsewhere and crucially, justify still more, not less oil and coal being burned as fossil fuel, releasing ever more fossil carbon into the atmosphere where it will contribute to climate change.

In total, under jurisdictional REDD+ proposals, Kenya would be divided into 11 such jurisdictional REDD+ areas. Law firm BakerMcKenzie received Swedish government development funds to outline the legal and carbon property rights conditions Kenya would have to put in place to accommodate such nested jurisdictional REDD+ proposals.[54] Private sector REDD+ project developers see a favourable regulatory framework within a country's jurisdictional REDD+ rules for projects such as those Althelia Climate Fund intends to fund as key to protecting their venture capital investments. The UN Paris Agreement would seem to favour jurisdictional REDD+ programmes over individual REDD+ projects. With private sector REDD+ proponents hoping that the UN's Paris Agreement endorsement of REDD+ will revive the currently deflated demand for REDD+ carbon credits, jurisdictional REDD+ programmes that are favourable to private sector REDD+ project inclusion are crucial to safeguarding their capital investments.

51 http://database.v-c-s.org/sites/v-c-s.org/files/Kasigau%20Corridor%20Phase%20I_VCS%20CCB%20M4%20Monitoring%20&%20Implementation%20Report%20_v1.7.pdf . Page 2/175.

52 SSNC (2013): REDD Plus or REDD "Light"? Biodiversity, communities and forest carbon certification. www.naturskyddsforeningen.se/sites/default/files/dokumentmedia/REDD%20Plus%20or%20REDD%20Light.pdf

53 Pers. com. during field visit in July 2016.

54 REDD+ Law Project (2014): Creating an enabling legal framework for REDD+ investments in Kenya. http://eprints.qut.edu.au/73943/1/Creating_an_enabling_legal_environment_for_REDD%2B_investment_in_Kenya_-_Final.pdf

REDD+: THE WRONG INSTRUMENT FOR ADDRESSING EITHER FOREST OR CLIMATE CRISIS

Reducing Emissions from Deforestation and forest Degradation (REDD) is a concept negotiated by the United Nations Framework Convention on Climate Change (UNFCCC) since 2005. Its objective is to reduce the release of carbon dioxide that is emitted into the atmosphere when forests are destroyed or degraded. The UNFCCC's Paris Agreement endorses REDD+ (with the plus adding additional activities, such as forest management or planting of trees) as a contribution to climate change mitigation and includes provisions for the trading of carbon credits generated by REDD+ activities.

The assumption underlying REDD+ is that remuneration of activities which prevent the release of carbon dioxide when forests are destroyed would assign a financial value to the (carbon stored in) standing forests. Assuming rising carbon prices, this financial value in turn was believed to be sufficient to compensate for the financial opportunity cost of foregone destruction. This assumption has turned out to be false, *including* because the profit that can be made from destroying forests for oil palm or soya monocultures or cattle ranching is orders of magnitude higher than the revenue generated from carbon credit sales. The concept was also developed with little appreciation for the complexity of local land use arrangements, the extent and severity of conflicts over use of and access to (forest) land or the historical injustices that still cast their shadow over many of the existing land use conflicts in forested areas. The assumption that the sale of carbon credits would generate sufficient revenue to cover the costs of "keeping a forest standing" was thus flawed from the start (carbon credits also justify extra fossil carbon emissions elsewhere and therefore just shift emissions around but never reduce them, but this has been ignored by REDD+ proponents from the start).

Unsurprisingly, existing private sector REDD+ projects have relied on substantial donations or public funding and other support, and the revenue from carbon sales is said to make up only a minor portion of the revenue for many existing REDD+ projects.

Alongside these private sector REDD+ project activities, the World Bank Forest Carbon Partnership Facility (FCPF) and bilateral initiatives such as the Norwegian International Climate and Forest Initiative (NICFI) or the German government's REDD Early Movers Programme set up pilot REDD+ activities. Increasingly, public sector initiatives such as these and private sector REDD+ ventures such as the Althelia Climate Fund engage in joint activities. For example, the EIB, Althelia and Conservation International have submitted a programme to the UNFCCC's Green Climate Fund for a REDD+ programme in Madagascar, and Wildlife Works has been intimately involved in developing the DRC's REDD+ country plans for the FCPF.

Predominantly savannah and open forest landscape within which the Kasigau Corridor REDD+ project is located. Taita Hills, Kenya, Photo © Jutta Kill

4. KASIGAU CORRIDOR REDD+ CREDIT BUYERS AND FINANCIAL HELP FROM THE IFC

Revenue from carbon credit sales is only one of several revenue streams for the Wildlife Works Carbon operations in Kenya. Other sources of revenue include the production and sale of ca. 300 bags of charcoal by Wildlife Works from the REDD+ project area, an Ecotourism lodge and the marketing of locally produced arts and crafts. According to Rob Dodson, responsible for Wildlife Works' Africa field operations, the total annual revenue from these carbon credit transactions has ranged between US$3.5m and US$7m.[55]

According to the 'State of the Voluntary Carbon Market 2013' report, three projects owned by Wildlife Works were among the four REDD+ projects worldwide that provided 96% of REDD+ carbon credits issued in 2012: the Kasigau Corridor I and II projects and the Mai N'dombe REDD+ project in the DRC.[56]

Wildlife Works Carbon markets the Kasigau Corridor REDD+ credits widely.

Among the corporate buyers are UPS[57], Microsoft, Coca-Cola, Hershey's and Barclays Bank who use REDD+ credits for Corporate Social Responsibility (CSR) purposes or to demonstrate compliance with company-own environmental targets.

Two Wildlife Works shareholders also bought carbon credits from the Kasigau Corridor REDD+ project: the German insurance company Allianz and the French multinational clothing and accessories company Kering (which controls the global brands Puma and Gucci). Kering's purchase of the Kasigau Corridor carbon credits illustrates the multiple CSR and marketing benefits corporate buyers like Kering gain from REDD+ projects.[58] To present itself as a 'responsible' corporate actor, Kering committed to a number of environmental targets with direct or indirect relevance to forests as part of its sustainability strategy. These include a commitment to offset greenhouse gas emissions, using "offset programmes that contribute to the welfare of the community and the conservation of biodiversity in its regions of operations."[59] Kering also committed to only using leather that comes from animals reared without conversion forests into grazing or agricultural lands. "Green supply chain" is the new buzzword that's replacing "sustainable consumption", and firms like Kering recognize the potential REDD+ holds to companies needing to deliver not just on 'carbon neutrality' but also "deforestation-free" product pledges to protect their brands and sales.

The 'Stand for Trees' Initiative, a brainchild of Wildlife Works and

55 C. Russell-Sluchansky (2014): Carbon Credit Plan aims to save Kenyan trees and elephants – and help villagers. National Geograhic http://news.nationalgeographic.com/news/2014/07/140705-kenya-elephant-poaching-carbon-credits-world-science/

56 Forest Trends (2013): Maneuvering the Mosaic. State of the Voluntary Carbon Market 2013. P. 21.

57 http://static.globalreporting.org/report-pdfs/2015/543b7e1f736920bfdb1efd10c62733d3.pdf

58 T. Laing et al. (2015): Understanding the demand for REDD+ credits. Centre for Climate Change Economics and Policy Working Paper No. 218 Grantham Research Institute on Climate Change and the Environment Working Paper No. 193. http://www.lse.ac.uk/GranthamInstitute/wp-content/uploads/2015/05/Working-Paper-193-Laing-et-al1.pdf

59 Kering Press Release 27 April 2012: http://www.kering.com/en/press-releases/ppr_introduces_environmental_and_social_5-year_targets_across_luxury_and_sport

Taita Hills, Kenya, Photo © Adriana Paradiso/Counter Balance

supported by USAID, has become an important source of revenue – some say, a lifeline - for many private sector REDD+ projects. It is the first online platform where private sector REDD+ projects can market their carbon credits directly to individual buyers, without other companies offering e.g. compensation of individual flights, conferences etc. as intermediaries. Crucially, at a time where many private sector REDD+ projects were facing financing difficulties and sales to corporate buyers averaging less than US$5, the standard price for REDD+ carbon credits on the 'Stand for Trees' platform is US$10 – nearly double the price for sales reported on the corporate voluntary carbon market.

The EIB also used carbon credits from the Kasigau Corridor REDD+ project. It reported the first purchase in 2014, just after it had committed €15m to the Althelia Climate Fund with its flagship 'Taita Hills' REDD+ project. In its 2015 Audited Annual Report, the EIB writes that "Like in 2014, the EIB has in 2015 purchased the equivalent tonnage of carbon credits from the Kasigau Corridor REDD+ Project to fully offset the corporate carbon footprint of the previous year." The bank writes that "The project avoids the unplanned deforestation and degradation of tropical forests in the Tiata [sic] Taveta District in the Kasigau Corridor, Kenya, which in the absence of the project would have been deforested and/or degraded for subsistence agriculture. Historically, areas adjacent to the project areas were converted to crop land for the illegal charcoal trade as well as subsistence agriculture such as maize farming."[60]

FUNDING LIFELINE FROM IFC AND BHP BILLITON

The protracted, and eventually unsuccessful, ERPA negotiations mean that Althelia's innovative financing boils down to providing loans backed by an USAID guarantee to projects that engage in

60 EIB (2016): Carbon Footprint Report 2015. P.29 http://www.eib.org/attachments/strategies/carbon_footprint_report_2015_en.pdf

a series of activities, including the generation of carbon credits from supposedly reducing emissions from deforestation to pay back the loan and some extra profit to Althelia Climate Fund investors. The failed ERPA negotiation also left the REDD+ project developer, Wildlife Works Carbon, without the secure buyer of its carbon credits, and a gap to fill. Finding a replacement for the ERPA deal with Althelia that had just fallen through in July 2016 was likely a matter of survival for the Kasigau Corridor REDD+ Project and its 'Taita Hills' expansion given that the project was already experiencing cash flow problems.

The Kasigau Corridor REDD+ project's financial lifeline came from the International Finance Corporation (IFC), the private sector arm of the World Bank, and BHP Billiton, the mining company with a record of severe environmental damage and forced displacement of communities that stretches back decades and continues to this day.[61]

In November 2016, the IFC launched a US$152m "Forests Bond", listed on the London Stock Exchange. The bond has reportedly been sold to major institutional investors who are offered either cash or carbon credits in return for their investment. The carbon credits will be sourced from the Wildlife Works Kasigau Corridor REDD+ Project in Kenya. Investors who prefer the cash option will be repaid through a purchase commitment made by BHP Billiton, co-owner of the Samarco mine in Brazil, where the bursting of a tailings dam in 2015 caused the country's worst environmental disaster.[62]

Taita Hills, Kenya. Photo © Jutta Kill

IFC Forests Bond holders who prefer the cash option will be repaid through a purchase commitment made by BHP Billiton, the world's largest mining company and co-owner of the Samarco mine in Brazil. Samarco became the site of Brazil's worst environmental disaster in 2015, when a dam burst. The disaster left at least 19 people dead, hundreds homeless and released a wave of 40 million cubic metres of mineral waste gushing down the Rio Doce. One year on, the river still runs red from the iron ore in the water.

Another proponent of REDD+ supporting the IFC's Forests Bonds deal is Conservation International (CI). The organisation has long been aggressively promoting REDD+ and has invested substantial sums in the concept.

CI is also a founding member of the certification scheme for REDD+ projects, the Climate, Community & Biodiversity Alliance (CCBA)[63] that developed the CCB Standard, whose certifiers awarded a Gold level certificate to the Kasigau Corridor REDD+ project. CI sits on the Althelia Climate Fund GP Expert Board, and would presumably have been aware of the difficulties around the ERPA negotiations between Althelia and Wildlife Works Carbon. CI and Wildlife Works Carbon are also project partners in the Chyulu Hills REDD+ project. A financing gap that would jeopardize the Kasigau Corridor REDD+ operations would thus also likely have affected CI larger REDD+ plans in Kenya and its own investment in the Chyulu Hills REDD+ project.

61 See, among others, an extensive list of reports on the impacts of the mining company's operations available on the BHP Billiton Watch website: https://bhpbillitonwatch.net/

62 Dom Philips (2016): Samarco dam collapse: One year on from Brazil's worst environmental disaster. https://www.theguardian.com/sustainable-business/2016/oct/15/samarco-dam-collapse-brazil-worst-environmental-disaster-bhp-billiton-vale-mining

63 http://www.climate-standards.org/about-ccba/

5. OTHER CONTROVERSIAL ASPECTS OF THE KASIGAU CORRIDOR REDD+ PROJECT

DODGY REFERENCE AREA MIGHT ALLOW FOR LARGE OVERESTIMATION OF EMISSION REDUCTIONS

In 2013, a report for the Swedish Society for Nature Conservation (SSNC) investigated the project in relation to the Verified Carbon (VCS) and CCB certification standards.[64] With regard to the Kasigau Corridor II REDD+ project, the SSNC report notes that "the calculation of emission reductions is built on an assessment of the amount of emissions that would be most likely to have occurred if the project had not been implemented. This is, inevitably, a speculative exercise. In the case of Kasigau Phase II, the [assumption] is that almost all of the above- and below-ground forest biomass and 55 percent of the soil carbon in the Phase II project area would be lost due to the expansion of slash-and-burn agriculture."

The reference for this assumption is a comparison with an area that borders the REDD+ project. Based on this comparison, the Kasigau Corridor REDD+ project claims that more than 90% of the REDD+ project area will be deforested within 30 years from the project start date. The problem? The reference area is radically different from the Kasigau REDD+ project area in several respects. "Most obviously, at least 100,000 people live in the reference area", the SSNC report notes, while the population density in the REDD+ project area is very low.

64 SSNC (2013): REDD Plus or REDD "Light"? Biodiversity, communities and forest carbon certification. www.naturskyddsforeningen.se/sites/default/files/dokumentmedia/REDD%20Plus%20or%20REDD%20Light.pdf

The reference area also includes land that has been designated for some agricultural use, while the REDD+ project area is made up of cattle ranches. Despite these obvious socio-economic differences between project and reference area, the VCS certification audit concluded that the reference area has "similar conditions and drivers of deforestation" compared with the REDD project area and that the calculations meet the requirements outlined in the VCS methodology. The consequence: many of the carbon credits sold as an "emission avoided through the REDD+ project" are not actually backed by an avoided emission because the project methodology exaggerates the risk that deforestation would have taken place without the REDD+ project. The carbon might have been saved in the vegetation also without the REDD+ project. Yet, the buyer uses the REDD+ credits to make the unverifiable claim that his / her emissions have been cancelled out through additional savings of the REDD+ project.

HISTORICAL INEQUALITY OF LAND ALLOCATION AND ITS LASTING LEGACY: THE CAUSE FOR REDD+ PROJECT CONFLICTS

In 2016, Susan Chomba and her colleagues published an article that describes the impact of historical inequalities on carbon revenue benefits sharing approaches used by the Kasigau Corridor REDD+ project. They found that "the initial flow of benefits was concentrated in the hands of a few. This was because developments in land tenure since pre-colonial times had involved

Predominantly savannah and open forest landscape within which the Kasigau Corridor REDD+ project is located. Taita Hills, Kenya, Photo © Jutta Kill

processes of dispossession and elite capture, enabled by colonial and post-colonial land policies that left the majority of local people with little or no land entitlement."[65]

A 2015 paper by Mariateresa Silvi notes that "in the pursuit of conservationist objectives, previous uses of the land for sustenance agriculture, logging, charcoal production, herd grazing have been disincentivized, made illegal and/or prohibited with the help of patrolling units. In compensation, the project has implemented 'many other income-generating, ecofriendly activities to the project area, such as ecotourism, built schools, trained local people in better dryland farming techniques and provided resources to health clinics' (Wildlife Works, 2011). The ownership of the profits generated through these income-generating activities is not clear from the project documents. [...]."[66]

65 S. Chomba et al. (2016): Roots of inequity: How the implementation of REDD+ reinforces past injustices. Land Use Policy. Volume 50: 202–213.

66 M. Silvi (2015): Legitimacy of REDD+: Does the funding mechanism make a difference? Exploring the impact of markets on legitimacy. UAB - Universitat Autònoma de Barcelona. In: Vatn, Arild (Ed.) Student Papers. Thor Heyerdahl Summer School in Environmental Governance. Volume 3: 124-139. P. 133. https://www.nmbu.no/sites/default/files/pdfattachments/thss_volume_3_0.pdf

Silvi also explains that "the individuals living in the project area villages are not the only ones affected by the project." She shows how the project excludes pastoralists from consultation or participation in the project: Project documents mention pastoralist groups merely in relation to damage that their cattle provoke by preventing new saplings from growing. "A project report prepared for potential buyers of carbon credits even suggests that an "invasion" of cattle grazers due to famine in adjacent communities may be prevented by increasing ranger patrolling paid with carbon credits funding", Silvi writes.[67]

67 Ibid. P. 134. The report reads: "Invasion of cattle grazers due to famine in adjacent communities, or lack of grazing elsewhere -Any influx of cattle only affects the quantity of grass in the project area and leads to no significant change in carbon stock. Again, this is possible especially as Somalis have used land in this area to feed and water their cattle over the years, sometimes with permission and sometimes without. However, given increasing aridity in the area, we believe Somali cattle herders will be forced to look elsewhere for rangelands. We will be using carbon funding to increase ranger patrolling to better protect the project area from illegal incursion."

Droughts pose a serious threat to pastoralists, particularly from northern Kenya, and one of the main coping mechanism for these groups is to move South, including to areas such as the Tsavo East National Park. Exclusion from land now dedicated to REDD+ carbon credit generation may thus deprive pastoralists of a key coping mechanism against food-insecurity in times of drought.
Silvi further explains how the exclusion of pastoralists from land access within the REDD+ project area reinforces a long history of ethnic favoritism in Kenya. She notes that "the country's new Constitution, entered into force in 2010, has reversed the situation and it allows for the protection of land rights for pastoralists," further stating that this Constitutional change does not seem to be reflected in the REDD+ project. Silvi writes that "project managers worked towards making the use of the project area for grazing by Somali pastoralists completely illegal: they paid [ranch shareholders] to stop leasing land to them, thereby excluding 3'000 heads of cattle and the large amount of people tending them from the project area.""[68]

68 M. Silvi (2015): op. cit: 57. P. 134.

6. FINDINGS OF A RECENT FIELD INVESTIGATION

In July 2016, Re:Common and Counter Balance carried out a field investigation in the area of the Kasigau Corridor REDD+ project. The visit included meetings with Taita and Durumba community members not holding shares in the group ranches that are part of the Kasigau Corridor II REDD+ project as well as with ranch shareholders in the 'Taita Hills' project area and a visit to the Wildlife Works Carbon project office.

One of the most striking observations was how locally, people referred to Wildlife Works as "the company". The reasons for this seemed twofold. For one part of "*the community*", Wildlife Works is "the company" that instructs guards to confiscate cattle and goats; that prevents the poorest community members in the area from collecting even dry branches for firewood when "the company" itself runs a charcoal production business on the REDD+ project area; that puts up water tanks on residents' land without even asking permission, let alone paying for the use of the land; that claims to dedicate initially[69] 1/3 of carbon *revenue* sales to local community projects, but does so in a way that means benefits from these "community" projects are captured by local elites. For example, ranch shareholders who receive 1/3 of the revenue from the carbon credit sales might *also* sit on the "community development committees" that decide how the 50% of the *profit* from carbon credit sales (i.e. funding that is available only if after the payment of the 1/3 of revenue from credit sales and deducting of project costs any profit remains) is spent that is to benefit "the community" not holding shares in the ranches.

Another part of "the community" sees Wildlife Works as "the company" that has become an important employer in an area where formal employment opportunities are few. In addition to the 140 rangers on the Wildlife Works Carbon pay role,[70] the "EcoFactory", the charcoal production business, the tree nursery, carbon measurements, the ecotourism activities and the Lodge in the Rukinga Ranch Wildlife Sanctuary, the marketing of locally produced soap, arts and crafts all provide local employment. These local employment opportunities are significant in an area that offers few such opportunities, and they played an important role in the company's efforts to obtain a 'social license to operate' in the area. The field visit also clearly demonstrated that the local employment Wildlife Works Carbon has generated through these activities has not really benefited those most affected economically by the REDD+ land use restrictions. The recent precarious financial situation of the operation also seems to have affected salary payments. During the field visit, we heard comments of e.g. salary payments for those involved in carbon measurement being delayed by several months, "but people still have bills to pay, so this is very difficult", one person not employed by the company remarked.

In the 'Taita Hills' description on

69 As noted above, the arrangement has recently been changed and the share for community projects is 50% of profit, i.e. funding that is available only if after the payment of the 1/3 of revenue from credit sales and deducting of project costs any profit remains.

70 C. Russell-Sluchansky (2014): Carbon Credit Plan Aims to Save Kenyan Trees and Elephants—and Help Villagers. National Geographic. http://news.nationalgeographic.com/news/2014/07/140705-kenya-elephant-poaching-carbon-credits-world-science/

its website, Althelia Climate Fund claims that the Kasigau Corridor REDD+ project activities "currently span more than 225,000 hectares connecting Tsavo East and Tsavo West National Parks and bring benefits from carbon finance to more than 100,000 local landowners and community members." Based on the findings from our field visit, this claim would seem exaggerated. A report published in 2015 notes that "[d]espite the significant project impact on livelihoods, discussions revealed that the livelihood benefits have not adequately matched community expectations or the opportunity costs of restricting forest use."[71]

Water tank installed by Wildlife Works Carbon without permission from occupant to collect water running off the rocks. Photo © Jutta Kill

SEVERE LAND USE RESTRICTIONS FOR THE MOST MARGINALIZED AND ELITE CAPTURE OF "COMMUNITY BENEFITS"

Conversations in the Taita and Durumba communities within the Kasigau Corridor II project area and the prospective 'Taita Hills' REDD+ project area confirmed what several academic and other reports had already indicated: as with other REDD+ projects, the land use restrictions imposed by the Kasigau Corridor project hit the most marginalized community members hardest while they are the last to receive any of the benefits the project provides to "the community".

In the case of the Kasigau Corridor REDD+ project, nomadic herders and local residents without land title documents are hardest hit by the restrictions the REDD+ project puts on their access to the land for gathering, grazing and collection even of dry branches for firewood. Ranch shareholders can also still use their "chambers" on the ranch land, albeit with restrictions detailed in the agreement with Wildlife Works Carbon. But for villagers without shares in the ranches who had had access to the land previously, the land is now fully "off-limits". The field visit demonstrated how the Kasigau Corridor REDD+ project upholds or even exacerbates historic injustices that led to the majority of local residents not holding any shares in the group ranches through its restrictive regulation the land use non-shareholding residents and pastoralists have historically relied on.

"We have never seen the usefulness of the carbon [project] around here", one woman affected by the land use restrictions remarked.

Another member of the same village added, "How is the carbon benefiting me? We hear 'carbon, carbon', but to me, this carbon business is a riddle."

Village members who joined the conversation remarked that in their settlement, only one girl received a scholarship and that this was the only benefit the community had seen. Villagers spoke of the increased damage to their cassava and pea crops, and that they were no longer allowed to use even dry branches as firewood. As a result, they explained that women in particular had to walk a long way to gather firewood.

Villagers explained how the access restrictions to the land also affect people's ability to using medicinal plants they relied on. The project also restricts the use of weapons within the project area. A man explained that the "carbon rules" require villagers to obtain a license for keeping "arms" (and for several

71 J. Atela et al. (2015): Implementing REDD+ at the local level: Assessing the key enablers for credible mitigation and sustainable livelihood outcomes. Journal of Environmental Management 157: 238-249.

other activities). The "carbon rules" include bow and arrow under the definition of "arms".

"Why do we need a permit for something that to us is a lot more than just "arms?", he asked.

A carbon offset provider offering carbon credits from the Kasigau Corridor REDD+ project writes on its website that "committees determine what projects to undertake, prioritizing them by need and feasibility. 'So many people have problems with water, so water projects—water tanks, water pipelines—always come first,' said Pascal Kizaka, a local chief and committee board member."[72]

During the July 2016 field visit, several villagers related the story of how "the project" had set up a water tank on a fellow villager's land without his permission. The man had left the village for a few days to pursue casual labour work. On his return, he found construction of the water tank on his land half completed. The compensation he requested from Wildlife Works had been promised many times, but was still due to be paid, villagers commented.

The Wildlife Works Carbon carbon revenue sharing approach initially allocated one third of the revenue to community projects like the water tanks that are claimed to benefit community members without shares in the ranches. However, as noted above, the company has recently altered the benefit sharing formula. Ranch shareholders still receive their 1/3 of the revenue as agreed in the contracts between Wildlife Works Carbon and the ranch shareholders. That third is paid out first. Second in line is Wildlife Works Carbon, who deduct REDD+ project costs from the remaining revenue. If there is any profit left after the 1/3 for ranch shareholders has been paid out and the REDD+ project costs have been covered, it's split in half between "the broader community and Wildlife Works.[73] The article reporting the new revenue sharing arrangement fails to note whether during the past years, there would have been any profits to share with "the broader community" affected directly and significantly by the REDD+ project land use restrictions under this new arrangement, or how the contribution to "the broader community" under this new arrangement would have compared with the 1/3 benefit sharing arrangement the project initially pursued. In addition, as the example above indicates, those most disadvantaged in 'the community' also have very little say in the selection and execution of these "community projects".

In one village, when asked what they knew about the revenue sharing commitment from the carbon project to communities, villagers spoke of a man who "*came to introduce the benefits. But after that one time we never saw anything of him or the benefits.*"

Exploring the location of one of the "water pipelines" advertised as an activity of the Wildlife Works Carbon REDD+ project revealed that far from what was suggested by the large placard outside the building (a One Vision Center), it seemed that the Wildlife Works contribution to the "water pipelines" project had been just the guttering along the side of the building's roof and piping to connect the gutters with a water tank constructed by others. People also commented about bore holes put in by "the company" that had never provided any water.

72 http://www.climatefriendly.com/projects/kasigau-redd

73 M. Githiru (2016): Correcting inequity: How the implementation of the Kasigau Corridor REDD+ Project in fact redresses past injustices—Response to Chomba et al.. Land Use Policy 57 (2016): 619–624

Sign post advertising Wildlife Works Carbon contribution to another water collection project. What the sign does not say: only the guttering and pipes were paid for by Wildlife Works, while the concrete water tank was paid through other contributions. Photo © Jutta Kill

Several villagers spoke about an increase in wildlife/human conflicts since the arrival of the REDD+ project, and that more of their cattle were killed by hyenas and lions. Villagers we met reported that one family had lost 41 of their 70 goats to hyenas in one recent incident “without having received as much as a [Kenyan] shilling in compensation.”

An increase of wildlife in the REDD+ project area means that those community members who rely on the land for growing and gathering the food that feeds their families face an additional and double hardship as a result of the REDD+ project: they are prohibited from using the land that was previously available to them for grazing, gathering and cultivation of food and dry wood collection and the food crops they are still able to grow are more often destroyed by wildlife. And the crops they are able to grow are at bigger risk of being destroyed by wildlife passing through the area in increasing numbers.
People reported that the increased damage to their crops was particularly acute around the Rukinga Ranch Wildlife Sanctuary. Yet, villagers receive no compensation, they said. Wildlife Works insists that it is the Kenya Wildlife Service that has to pay this compensation, presumably aware that this means villagers are very unlikely to receive any compensation. Yet, the cause for the increased damage inflicted on the villagers’ crops is a direct consequence of the Wildlife Sanctuary and conservation activities implemented by Wildlife Works. One villager described the situation they are left in when wildlife destroys their crops: “The animals come from “the company” Sanctuary but people have to report to the KWS [Kenya Wildlife Service]. KWS then says ‘these are not our animals, go to the company. So, what do we do?” Several villagers raised the question why “the company” was not setting up fences around the Wildlife Sanctuary, something people said was common around the National Parks in the area as a way of reducing such human-wild animal conflicts around protected areas.
In another settlement, villagers said that when complaining to Wildlife Works, the company would send someone to assess the damage. “But they never pay! But when they confiscate our animals, we have to pay them to get our animals back. That is money we then do not have to pay for school fees.”

One woman added her impression: “Their strategy is that they write down the damages but do not pay until we are bankrupt and leave.”

The biggest impact of the REDD+ project has probably been on the villagers relying on charcoal production for their livelihood. Wildlife Works Carbon claims to operate a permit system that allows for some local charcoal production independently from the company’s own charcoal production. However, this system was perceived not to be accessible by those who had lost their livelihood when charcoal production other than that controlled by Wildlife Works became prohibited inside the REDD+ project area. What was considered as particularly unjust was that “the company” itself produces and sells around 300 bags of charcoal a week while the villagers who are dependent on charcoal sales to provide a livelihood for their families are no longer allowed to continue their trade.

Like many other private sector REDD+ projects, the Kasigau Corridor REDD+ project started out with carbon credit revenue flow projections well above the current going rate for REDD+ credits.
And like most other private sector REDD+ projects, it is finding out that reducing emissions from land use – if the reductions are not just on paper – is far from the low-cost, rapid win-win option that Lord Stern describes in his 2006 seminal “Stern Report”.

At the time of our July 2016 field visit, it appeared that revenue from economic activities other than sale of carbon credits kept the Kasigau Corridor REDD+ project afloat. In a year where REDD+ credit sales are slow and the negotiations of an Emissions Reduction Purchase Agreement with the Althelia Climate Fund unravelled, the charcoal producing factory (300 bags a week) and in particular, the US$ 3m turn-over generated by the sale of arts and crafts, according to Wildlife Works staff, seem to be important sources of revenue generation for the Kasigau Corridor REDD+ project. In relation to the sale of arts and crafts produced by women locally, it is unclear what proportion of the proceeds Wildlife Works Carbon passes on to the women who produce these goods.

FINAL CONSIDERATIONS

Althelia Climate Fund has relied heavily on public funding to de-risk its investments. In 2013, Althelia wrote that it was in discussions "with key donor governments such as the UK, US and Norway as well as the IADB (Inter-American Development Bank) on collaborative structures based on public-private partnership that if executed will add greatly to the Fund's risk mitigation and in some cases monetisation strategies."[74] These discussions resulted among others in the approval of the 2014 USAID loan guarantee, which provides security over 50% of any potential loss of the Fund's entire portfolio. With this loan guarantee, investments into the private sector fund are backed by public funds. In other words, investors taking the risk to invest in a private sector capital investment fund are guaranteed to meet their return targets even if 50% of the investments the fund makes are lost. The USAID loan guarantee thus lowers the risk to investors committing their capital to this private sector capital investment fund.

The Wildlife Works business model also relies heavily on public sector commitments providing a safety cushion for its private capital investment. When the ERPA negotiations with Althelia Climate Fund unravelled, the IFC Forests Bond commitment to source carbon credits at a fixed price of US$5 per credit from the Kasigau Corridor REDD+ project provided public backing. This purchase commitment most likely provided a financial lifeline to the Kasigau Corridor REDD+ project, and thus the Wildlife Works private capital investment.

74 Althelia Climate Fund. Annual Report 2013. Page 5.

Whether Althelia's signings with the other four projects listed on the fund's website will be more successful than the failed ERPA negotiations with Wildlife Works remains to be seem. The REDD+ credit sales component of these projects seems no less risky than the Kasigau Corridor REDD+ project. The project had already been in operation for a number of years by the time ERPA negotiations with the Althelia Climate Fund began. The remaining projects in the Althelia Climate Fund portfolio appear to be in their early stages with regards to the REDD+ credit generation component.

A sketch of Althelia's financing model suggests that the model might work for illustrative purpose only but may not meet the reality test in the long run. The model seems to rely on significant public sector or philanthropic subsidies ("Co-financiers (grants)) to raise the funds necessary to cover initial project costs (in the image, 50% of the "financing pool" are grants!). In addition, if the current Althelia Climate Fund model is taken as a reference, 50% of the Althelia capital investment would be covered by a loan guarantee from a public finance institution. The Kasigau Corridor REDD+ project example further shows that realizing the projected carbon revenue in the "outcomes and impacts" line of the Althelia model might require more public finance support such as the IFC credit purchase commitment.

A conference paper titled 'Making biodiversity an asset class'[75] states that "Althelia's model was to raise the initial principle at the outset

75 P. Bigger & J. Dempsey (2016): Making Biodiversity an Asset Class. Unpublished conference paper. Page 8.

and slowly source deals over the life of the fund. **The uninvested capital would be parked in a side fund that tracks green bond indices**, allowing for regular returns to investors that would grow along with the companies in which they had taken a stake."[76] [Emphasis added]. It is unclear whether Althelia used this strategy of investing some of the uninvested capital in green bonds not linked to the projects advertised on its webpage to generate returns on investment.

In relation to the EIB investment in the fund, the set-up of Althelia and the modalities of the EIB's participation confirm NGO criticisms of the Bank's previous engagement in other carbon funds: the fund's establishment, operation and project selection and management is fully delegated to fund managers.

The findings from the recent Re:Common and Counter Balance field investigation into the Althelia Climate Fund support to the Kasigau Corridor REDD+ project shows that the EIB still needs to address many outstanding questions concerning its approach to climate and carbon finance. Credible evidence that market-based mechanisms are the right approach to climate action and policy coherence for development remains lacking. Like many REDD+ projects, the land use restrictions imposed by the signature project for the Althelia Climate Fund, the Kasigau Corridor REDD+ project, have hit the most marginalized members of the community hardest while providing them with few if any benefits or compensation for the negative impacts the project has on their livelihoods. In July 2016, the Emission Reduction Purchase Agreement Althelia Climate Fund had been negotiating for over two years with the Kasigau Corridor REDD+ project unravelled, leading the financing to be converted into a loan four years into the EIB's five year investment. Yet the Bank's ideological bias in favour of market-based mechanisms has not allowed for an honest assessment of its investment into the Althelia Climate Fund or an open-ended debate about what role, if any, the EU house bank should play in relation to financing activities in the land use sector. The Althelia Climate Fund's failure to close the Emission Reduction Purchase Agreement with the signature project of its portfolio reiterates why the EIB should terminate its experimental investment of REDD+ offset projects and divest from the Althelia Climate Fund. Until the EIB has demonstrated the added development benefit of the bank outsourcing the management of loans to projects in the land use sector to a financial intermediary, the EIB should halt any further disbursements to the Althelia Climate Fund.

76 P. Bigger & J. Dempsey (2016): Making Biodiversity an Asset Class. Unpublished conference paper. Page 9.

The Kasigau Corridor REDD+ Project in Kenya:
A crash dive for Althelia Climate Fund

The European Investment Bank (EIB) approved an investment of up to €25 million into the Althelia Climate Fund which the EIB describes as a "path breaking proposal to enhance the environment and reduce carbon emissions through support for sustainable land use and conservation of primary forest." However fund raised less money than anticipated and operates a reduced project portfolio. Having had to change the financing arrangements for its signature project, the Kasigau Corridor REDD+ project in Kenya, the venture seems headed for a crash dive.

An investigation by Re:Common and Counter Balance also confirmed concerns about the social impact of land restrictions imposed by the Kasigau Corridor REDD+ project: those members of local communities most vulnerable and most heavily affected by land use restrictions imposed by the project have little access to the community benefits the project has promised. Not least these socioeconomic impacts of the project call into question the compatibility of the EIB investment with the EU bank's development mandate.

This publication has been produced with the financial assistance of the European Union and of the Polden Puckham Charitable Foundation. The content of this publication is the sole responsibility of Counter Balance and Re:Common and can under no circumstances be regarded as reflecting the position of the European Union.